



**HIRSHABELLE STATE OF SOMALIA**

**Public Financial Management Law 2018**

Applicable from

31 March, 2018

**Regulation #4**

**Regulation Establishing Budget Execution Procedures**

## **1. Authority, Purpose & Scope**

1.1 This regulation is issued pursuant to the following Sections and Paragraphs of the Public Financial Management Law 2018:

- Section 22, Paragraph 1
- Section 25, Paragraphs 1 & 2
- Section 27, Paragraph 2 and

This regulation is a “disallowable instrument” as defined in the PFM Act and in accordance with Section 7 is subject to a review period not to exceed ten (10) days by Parliament.

1.2 The purpose of this regulation is to outline the budget execution procedures. This Regulation is further supplemented by detailed Instructions as referenced within this regulation.

1.3 This regulation applies to all agencies, entities and institutions of the Hirshabelle State of Somalia as defined in Section 1, Paragraph 3 of the Public Financial Management Law 2018 that are funded from the consolidated fund.

1.4 Upon further devolution of the existing budget execution procedures described here to the line ministries and agencies, a separate Instruction will be issued providing further guidance, however, the fundamental principles outlined in this will Regulation will be maintained.

1.5 All exceptions to compliance with these policies must have written approval of the Minister for Finance.

## **2. Definitions**

2.1 Except when the context of a specific provision of law otherwise requires, the following terms when used in this Regulation shall, for the purposes of this Regulation, have the meanings respectively ascribed to them in this Section:

*“Funds Allocation”* means the process of releasing or making available the legally approved budget appropriation for budget execution purposes.

“Commitment” means the process of establishing a financial reservation (earmark) against the Funds Allocation.

“Account Classification level” means the levels of the Account Segment as defined in Regulation #2, Establishing the Budget Classification Structure for Budget Preparation & Budget Execution

“Ministry Head” means the Directory General or Permanent Secretary.

### 3. Application of Procedures Overview

3.1 The expenditure process established in this Regulation is part of a strong financial management control policy developed by the Hirshabelle State of Somalia. The procedures herein provide a rigorous control structure over the budget execution of the Hirshabelle State of Somalia Consolidated Budget and other government related funds.

3.2 The policies and procedures framework provided here within must be followed in the commitment, expenditure and collection of public money. This ensures that expenditures are consistent with the amounts and purposes set out by Parliament in approved budgets and to prevent fraud and abuse of public moneys. An officer (*Certifying Officer*) independent from the approval and procurement processes must confirm that these rules and procedures have been followed.

3.3 There are three distinct phases in the control of expenditure of public money as follows:

- ◆ Before a legal obligation is made (*Financial Control*), specifically the commitment authorization and expenditure approval stages of proposals to spend public moneys;
- ◆ Before payment is made (*Accounting Control*), including the certification of claims for payment; and
- ◆ After payment is made (*Audit*).

3.4 In applying this framework, it is necessary to introduce limits to the total amount that can be committed (the *funds allocation/commitment* process) for spending at any one time, usually for reasons related to cash management, but in all circumstances within the approved budget for the Ministry/Agency at Account Classification level. Thus, a process of *Funds Allocation* will be required, where the Ministry of Finance Budget department releases Budget Appropriations to the spending Ministries in the form of *funds allocations*.

3.5 Procedures for controlling expenditure should also ensure that suppliers' claims are processed as efficiently as possible within the necessary internal controls. Internal controls focus on

areas of greatest risk and are intended to provide the most economical ways of managing cash and reducing risk. Claims for very small amounts of money or claims in remote areas may necessitate different procedures, whereas claims for large amounts of money will invariably require more complex scrutiny.

3.6 Some Ministries/Agencies, due to size, geographic separation or other logistical impediments may not have the number of personnel to effect the desired segregation of duties mentioned in this policy. Such situations should be referred to the Ministry of Finance for the Treasurer's written approval of the Ministry's plan to mitigate the internal control concerns due to lack of segregation of duties.

3.7 Each of the referenced forms, in Section 5, is used to document or to authorize a certain part of the control, recording and reporting requirements related to budget execution. The forms are addressed in detail under **Instruction D, Instruction on Forms to be Used for Budget Execution**. Certain information related to each of the transactions is recorded in the financial management information system (FMIS) from data on the forms – See **Instruction C, The Use of the Bisan FMIS, BPM & RMS Systems**. Each form contains a series of appropriate budget classification codes, part of which is the Hirshabelle State of Somalia Chart of Accounts, the Account Segment, in the Budget Classification Structure (BCS), used for financial reporting. See **Regulation #2, Establishing the Budget Classification Structure for Budget Preparation & Budget Execution** for detailed discussion on understanding the BCS.

#### **4. Petty Cash**

4.1 As a supplement to the budget execution procedures established in this Regulation, the Minister for Finance may provide **petty cash** funds (depending on security considerations, this could be either a bank account or a cash fund) to a Ministry to cover small purchases where the value of the purchase would not warrant using the full extent of this expenditure policy<sup>1</sup>. The petty cash fund will have a custodian who will release cash for payment for a purchase. A simple receipt will serve as evidence of payment for such a transaction.

4.2 This fund, limited in amount will never be used for payment of salaries and individual transactions will never be permitted to exceed [US\$100]. The petty cash balance held by the

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<sup>1</sup> Further detailed procedures for operating a working fund and the related forms will be issued in a later release as an instruction to this Regulation.

custodian shall not exceed \$700. The fund is to be used for small purchases of supplies and such materials for the operation of the Ministry.

4.3 The *Commitment and Payment Order* (CPO) form (discussed later in this Regulation) will be used to replenish the fund balance. The CPO is the document that will reserve the amount of reimbursement from the fund allocation and record the amount of expense to be booked to the budget.

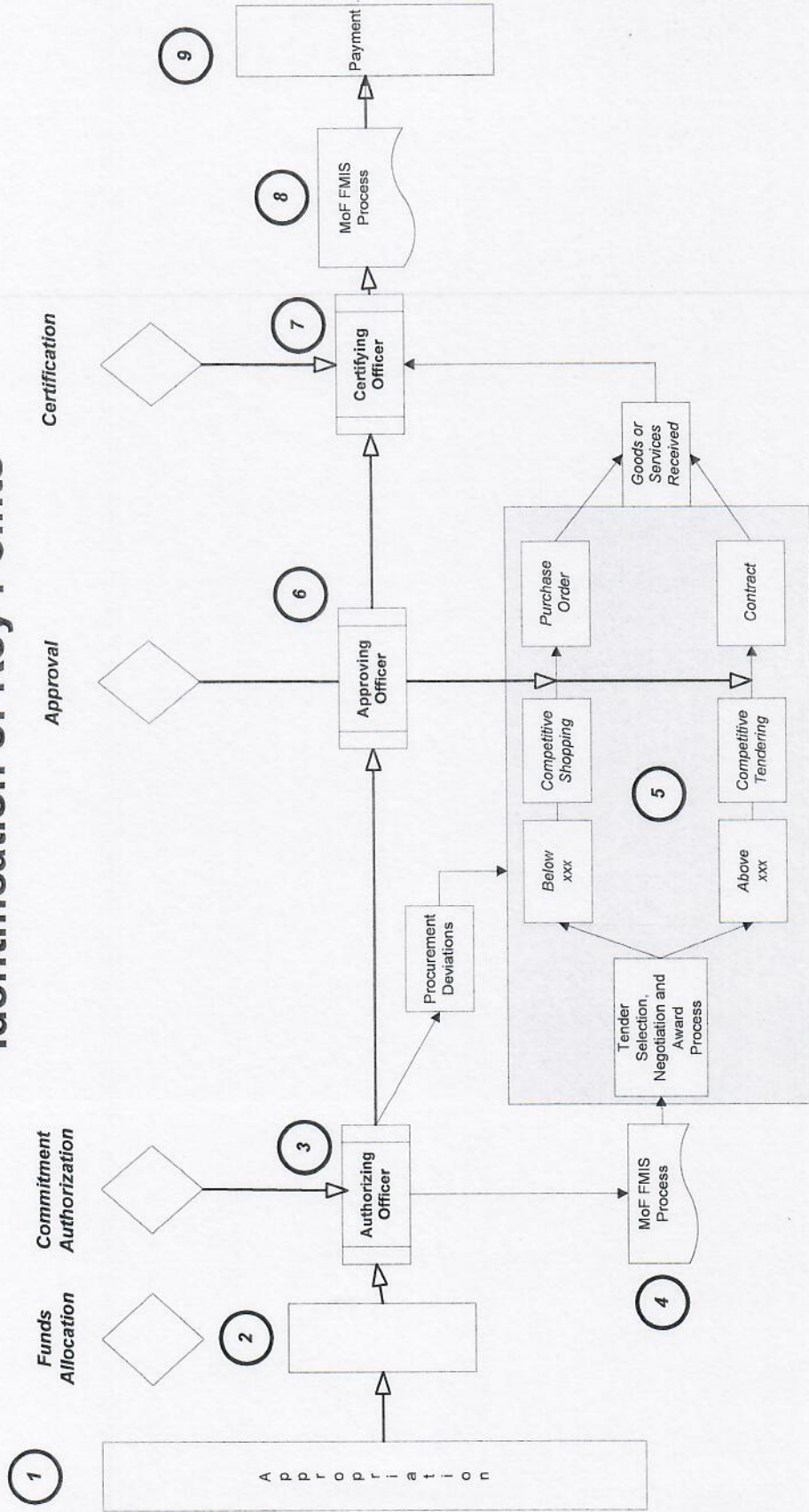
4.4 The initial Advance of cash to the petty cash custodian will be expensed to a petty cash budget line item at the time of the advance. Advances from the petty cash fund by the custodian will be acquitted on a regular basis and the usage will be expensed to the appropriate budget line item. . The *petty cash* fund can be replenished following acquittal but must be zeroed and fully acquitted at the end of each financial year, with any unspent balance returned to the consolidated fund. After acquittal at year end, the petty cash line item that held the original advance will have a zero value.

## **5. Expenditure Process Outline**

### **5.1 Overview**

5.1.1 The following is a schematic overview of the fundamental decision points expenditure process. Paragraph 5.1.2 provides a narrative summarizing these key points in the expenditure process. Section 5.2 discusses each of these stages in more detail and refers to related Instructions issued by the Minister for Finance which provides additional detailed guidance and specific forms to be completed.

# Expenditure Procedures and Procurement Process Identification of Key Points



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5.1.2 The table below provides further procedural background for the schematic per paragraph 5.1.1.

	<b>Expenditure Step</b>	<b>Amplification</b>
1	Parliament approves the Annual Appropriation Act which authorizes the Minister for Finance to allocate amounts, for specific services and purposes, not exceeding in total the amount appropriated in the approved Budget.	The approved budget appropriation will be recorded in the HIRSHABELLE STATE OF SOMALIA Financial Management Information System (FMIS) - <b>See Instruction C, The Use of the Bisan FMIS, BPM &amp; RMS Systems</b>
2	Ministry of Finance (MoF) approves allocations of the appropriation amounts authorized by Parliament to the heads of Ministries through a <i>Funds Allocation</i> . These allocations are based upon the ministry/agency annual revenue and spending plans and projected cashflow timing [see Regulation #3 - Yearly Budgeting Procedures and Contents and Documents of Proposed Budget]	See Expenditure Process Details (Section 5.2) <b>Funds Allocation</b> and related description. This process is carried out in the FMIS with the <i>Funds Allocation</i> document produced from the system - <b>See Instruction C, The Use of the Bisan FMIS, BPM &amp; RMS Systems.</b>

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	Expenditure Step	Amplification
<p>3</p> <p>4</p>	<p>Ministry heads (often <i>Authorizing Officers</i>) authorize expenditures. Where Goods and Services (non-salary expenditure) are involved, the authorization level is recorded on a <i>Commitment and Payment Order</i>. The <i>Commitment and Payment Order</i> is taken to the Treasury Department for recording commitment in the FMIS.</p> <p>For civil servant salary payments, there are two stages in the process, (1) hiring the civil servant and (2) paying the salary of the civil servant after the hiring process is complete. Hiring the civil servant is a procurement process and will be addressed in point 5 below. Assuming the civil servant has been hired, the Ministry <i>Authorizing Officer</i> will complete a <i>Payment Order for Salaries and Allowances</i> (POSA) that is taken to the Treasury Department for payment [see step 8 as steps 5, 6 &amp; 7 are not applicable for this expenditure stream]. See Civil Service Commission (CSC) regulations and instructions for completion of payroll processing requirements</p>	<p>See Expenditure Process Details <b>Commitment Authorization</b> and related description. The manual process will be conducted at Ministry level and when completed recorded by Treasury in the FMIS - <b>See Instruction C, The Use of the Bisan FMIS, BPM &amp; RMS Systems.</b></p> <p>As mentioned in paragraph 1.4, any further devolution of the budget execution process will provide further guidance on the modalities of this key commitment authorization process.</p>
<p>5</p>	<p>The Procurement process will be determined by the type of procurement, the value and the need to utilize a transparent and accountable approach.</p>	<p>See Expenditure Process Details <b>Procurement Cycle</b> and related description. NOTE: the detailed procedures that must be followed for procurement is provided in <b>Regulation #8 - Regulation on Establishing Public Procurement Policy &amp; Procedures.</b></p>

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	Expenditure Step	Amplification
6	Designated officers ( <i>Approving Officers</i> ) issue <i>Purchase Orders</i> , and contracts where appropriate, in accordance with the terms and conditions of the approved procurement decision.	See <i>Regulation #8 - Regulation on Establishing Public Procurement Policy &amp; Procedures</i>
7	Claims rendered on Ministries/Agencies, including advance or installment payments, are recorded, noted when due, certified as being properly due for payment and approved for payment.	See Expenditure Process Details <b>Certification for Payment</b> and related description. Initial approval will be at Ministry level but payments will be processed in the FMIS - See <b>Instruction C, The Use of the Bisan FMIS, BPM &amp; RMS Systems.</b>
8	The approved claims are provided to Treasury Department, Ministry of Finance and are processed and recorded in a central or consolidated general ledger maintained by the Treasury which constitutes the official financial record of the Hirshabelle State of Somalia. Treasury Department processes all payments.	The Hirshabelle State of Somalia' FMIS is the central or consolidated general ledger in the meaning discussed here - See <b>Instruction C, The Use of the Bisan FMIS, BPM &amp; RMS Systems.</b>
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## 5.2 Expenditure Process Details

The stages are outlined below.

### 5.2.1 Funds Allocation & Budget (Appropriation) Reallocation

5.2.1.1 The first stage of the Budget execution process begins with the release of Appropriations, called the Funds Allocation process. This release will be at a Funding Source/Ministry/Project/GFS Economic Classification Level 6<sup>2</sup>. The *Funds Allocation* will be issued to the appropriate Minister or Agency head. Funds Allocations could release the total appropriation (but not cash) at the beginning of the financial year, or the release could be in stages. The selection of time period for release depends on (1) the type of

<sup>2</sup> See *Regulation #2, Establishing Budget Classification Structure for Budget Preparation & Execution* for a complete description of the coding for financial management purposes

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appropriation, (2) the projected expenditure flow requirement estimated against the appropriation item and (3) the expected Revenue profile for the Hirshabelle State of Somalia Consolidated Budget<sup>3</sup>. Once set, most allocations are firm.

5.2.1.2 The Treasury Department must approve any requests for changes in an allocation. A copy of **Form 1A** for the *Funds Re-allocation* process is found in **Instruction D, Instruction on Forms to be Used for Budget Execution.**

5.2.1.3 In addition to requesting any change in funds allocation, during the budget execution cycle, the budget entity may also wish to reallocate the appropriation, within the requirements set out in the PFM Act (Section 26) and Annual Appropriation Act (Section 6). The Treasury Department must approve any requests for changes in an appropriation. A copy of **Form 1** for the *Appropriation Re-allocation* process is found in **Instruction D, Instruction on Forms to be Used for Budget Execution**

## **5.2.2 Commitment Authorization**

5.2.2.1 Most administration activities, either directly or indirectly, will involve the purchasing of goods and services. Procedures for purchasing are aimed at promoting open and effective competition and making efficient and effective use of public moneys. Naturally, proposals to purchase goods and services must also be in accordance with the Hirshabelle State of Somalia Procurement Policies and Procedures. Specific guidelines on how to conduct procurement activities are issued under a separate Regulation, called **Regulation #8, Establishing Public Procurement Policy & Procedures.**

5.2.2.2 The second step in the expenditure process occurs when a decision is taken which will lead directly to the expenditure of public moneys. This process is called *Commitment Authorization*. Only a person who has the authority to authorize proposals to spend public moneys can take such a decision. Ministry Heads (Permanent Secretary/ Director General) will be designated and delegated duties as *Authorizing Officer* by the Minister for Finance. This delegation of duties is effected through an Instruction called a *Delegation of Authority letter*. The responsibilities of the *Authorizing Officer* are listed in **Instruction D, Instruction on Forms to be Used for Budget Execution.**

5.2.2.3 A *Commitment Authorization* must be documented anytime the authority to authorize a proposal to expend public moneys is exercised. The *Commitment and Payment Order (CPO)* is the vehicle for doing this. When a Ministry's/Agency's *Authorizing*

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<sup>3</sup> These allocations are based upon the ministry/agency annual revenue and spending plans and projected cashflow timing [see *Regulation #3 - Yearly Budgeting Procedures and Contents and Documents of Proposed Budget*]

*Officer* signs the *Commitment Authorization* he/she is attesting to compliance with certain conditions for entering into commitments requiring the expenditure of moneys. This form is documented in **Form 2** in **Instruction D, Instruction on Forms to be Used for Budget Execution**. At this point, each *Commitment Authorization* will be provided to the Treasury Department to ensure the funds are reserved in the FMIS against the released *Funds Allocation*. Upon devolution of any commitment authorization duties within the FMIS, the use of the manual CPO form is still mandatory however Instructions may be issued.

5.2.2.4 *Commitment Authorization* as described above is not required for salaries and allowances as these are comprised of regular payments. In effect, a long-term commitment is made when personnel are hired and form part of the yearly salary budget. Note, allowances in this discussion do not apply to travel allowances, which require a CPO like any other expenditures for goods and services. Travel allowance policy is further detailed in separate Regulation issued by the Civil Service Commissioner. See the *Payment Order for Salaries and Allowances*, **Form 3**, and related payroll and allowance detail forms, **3A** and **3B**, respectively listed in **Instruction D, Instruction on Forms to be Used for Budget Execution**.

### **5.2.3 Procurement Cycle & Approval**

5.2.3.1 The third step in the expenditure process involves choosing the method of procurement, tendering, evaluating the responses, negotiating with a preferred supplier and finally *Approving* and entering into a contract or issuing a *Purchase Order* (PO). The procurement procedures to be adopted by the Hirshabelle State of Somalia are designed to promote open, effective, and fair competition and to ensure that value for money is achieved from the process. Specific guidelines on how to conduct procurement activities must be strictly adhered to and are issued under a separate Regulation, called **Regulation #8, Establishing Public Procurement Policy & Procedures**.

5.2.3.2 The final phase of the procurement process is entering into a formal obligation with a supplier. This involves signing a formal *Purchase Order* and/or a contract, where appropriate. Ministry heads (Permanent Secretaries/ Director Generals) are required to identify which officers should have the power to enter into obligation (approve contracts) that will require expenditure from the Hirshabelle State of Somalia consolidated Budget. These officers will be designated as *Approving Officers*. They will be nominated by the *Authorizing Officer* (Ministry Head) and approved by the Minister for Finance. This delegation of duties is effected through an Instruction called a *Delegation of Authority*

letter. There are requirements to be observed by *Approving Officers* when entering into commitments on behalf of the Hirshabelle State of Somalia Consolidated Budget as outlined in **Instruction D, Instruction on Forms to be Used for Budget Execution**.

5.2.3.3 At an appropriate point, depending on the procurement method selected, a **Form 4 Purchase Order** will be prepared in order to procure the goods or services or a formal contract, as outlined in **Regulation #8, Establishing Public Procurement Policy & Procedures**. Form 4 and discussion on how to complete it found in **Instruction D, Instruction on Forms to be Used for Budget Execution**.

#### **5.2.4 Certification for Payment**

5.2.4.1 The fourth step, *Certification for Payment* occurs after receipt of goods or services. A competent person (as named in the *Delegation of Authority Letter*) must first verify that the service has been performed or goods delivered in accordance with the *Purchase Order* and any *Terms of Reference* issued as part of the procurement process. This person must complete the *Receiving Report* section of the *Purchase Order* (Form 4). Form 4 and discussion on how to complete it found in **Instruction D, Instruction on Forms to be Used for Budget Execution**.

5.2.4.2 The *Certifying Officer* must be satisfied that the claimant has completed their part of the contract and that an invoice has been submitted and meets a number of required conditions. It is only after these conditions have been met that an officer can certify that the claim is correct for payment. **Instruction D, Instruction on Forms to be Used for Budget Execution** sets out the details of the checks. *Certifying Officers*, when signing the *Payment Approval* section of the *Commitment Payment Order*, are certifying that they have carried out those checks.

#### **5.2.5 Payment**

5.2.5.1 The fifth step, Payments, will be executed by the Treasury Department based on the Payment approval set out on the *Commitment and Payment Order*. All payments are processed using the FMIS - See **Instruction C, The Use of the Bisan FMIS, BPM & RMS Systems**.

5.2.5.2 It is the policy of the Hirshabelle State of Somalia that all payments are to be made electronically into the bank account of the vendor. This applies to payments for all goods and services, including salaries and allowances, stipends, etc.

5.2.5.3 Any exception to the policy noted in paragraph 5.2.5.2 will be outlined in specific Instruction.

## 6.0 Entry into Force

6.1 This Regulation is deemed to have entered into force on date issued of **31/03/2018**

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State

of

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